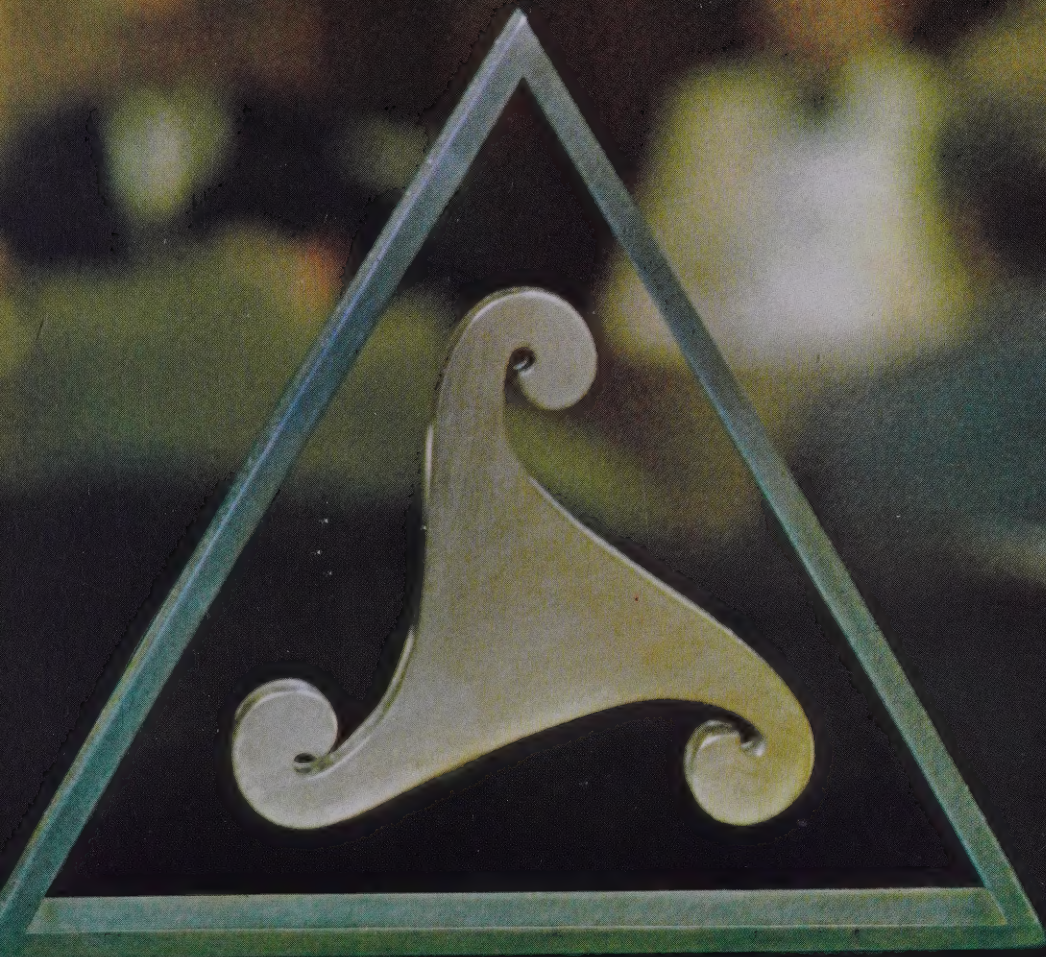


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*Stone & Webster,
Incorporated
Annual Report
1971*



Cover

Stone & Webster traces its origin to a partnership formed in 1889 to conduct the profession of electrical engineering. During those early years there was great enthusiasm for electricity, still in its infancy as a power source. Hundreds of electrical projects had been rushed into existence in anticipation of a new golden era. Many of the ventures proved to be unwisely conceived, poorly managed and badly financed. Bankers, promoters and equipment manufacturers were constantly calling for assistance and advice, and frequently they called upon Stone & Webster.

An organization of experts was built up to make studies of such properties, to aid management and to assist in refinancing. Thus, even in the early part of the twentieth century, Stone & Webster was able to furnish on a coordinated, interrelated basis the services of a wide range of specialists to various client companies for whatever time was needed to solve their individual problems as well as to provide continuing advice on more routine matters.

In 1909, the Triskelion emblem or trademark (see cover) was adopted to identify the organization and symbolize its aims and purposes. The Triskelion represents motion, energy and progress, and the triangle is suggestive of stability, a firm foundation and upward constructive endeavor. At the same time, the Triskelion suggested the three interdependent service activities of the Stone & Webster organization—engineering, financial and management consulting.

Stone & Webster is the one professional service firm today that can offer a complete service package covering engineering, financial and management consulting.

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The annual meeting of Stockholders is scheduled to be held on May 11, 1972, at 100 West Tenth Street, Wilmington, Delaware. Stockholders of record at the close of business on March 20, 1972, will be entitled to vote at this meeting. Proxies will be requested by the management, and it is expected that notice of such annual meeting, together with Proxy Statement and form of Proxy, will be mailed to Stockholders on or about March 30, 1972.

Management's Message



Richard N. Benjamin, Halmer L. Baker, Raymond C. Foster, Whitney Stone

To Our Stockholders and Employees:

The Stone & Webster organization in 1971 again achieved a new high in gross earnings. Consolidated net income for 1971 was \$13,392,000 or \$3.45 per share based on the average number of shares of common stock outstanding during the year, of which \$.37 resulted from the sale of investment securities. This compares with consolidated net income of \$16,168,000 or \$4.11 per share for 1970, of which \$1.33 resulted from the sale of investment securities. Quarterly dividend payments of 47½¢ per share were continued in 1971, resulting in total dividends paid of \$1.90.

Consolidated gross earnings were \$76,875,000 compared with \$75,655,000 in 1970, an increase

of \$1,220,000. Gross earnings from sales of investment securities for 1971 were \$1,131,000, or \$6,733,000 less than in 1970 when we sold investment securities resulting in gross earnings of \$7,864,000. Expenses and other charges, exclusive of income taxes, increased \$6,558,000 to \$55,553,000 for 1971. Income taxes of \$7,930,000 were provided out of earnings in 1971 as compared with \$10,492,000 in 1970.

As indicated in our consolidated statement of income, gross earnings from engineering and construction services increased \$4,503,000, and gross earnings from securities underwriting and trading increased \$4,320,000. Taken together this repre-

Management's Message

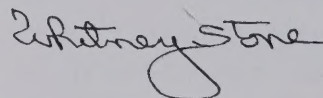
sented an increase of \$8,823,000. The aforementioned increase in expenses of \$6,558,000 was primarily related to the increase in the gross earnings from these two activities. Since these activities consist of the rendering of services, the major portion of their expenses is in the form of salaries and related costs.

Engineering, design and construction work continued at high levels with an impressive amount of new work obtained in 1971. Gross earnings from cold storage activities increased over the previous year. Natural gas and oil sales, dividends and interest from our security holdings and gross earnings from management consulting decreased.

The opportunities for supplying services by experienced and conscientious Stone & Webster employees in the engineering, financial and management consulting areas are excellent. The

Engineering Corporation has been expanding its professional and supporting staff to insure full competence in handling its increased work load. Stone & Webster Securities Corporation continues to improve its corporate finance, trading, research and sales activities in order to strengthen its position as a major underwriting and distributing organization offering quality investment banking services. Stone & Webster Management Consultants, Inc. also has added highly specialized personnel to its consulting staff to expand its activities.

We take pleasure in presenting on the following pages a review of the past year's activities of our major affiliates. With the demonstrated ability of Stone & Webster employees located throughout the world to handle their work in a competent and efficient manner, we look forward to many new diverse assignments.



Chairman of the Board

February 16, 1972

Stone & Webster Engineering Corporation designed and constructed Fort Churchill Unit No. 2 for Sierra Pacific Power Company. An unusual environmental condition is featured at this complex, located 70 miles from Reno. The cooling ponds for the two power units create a 240-acre man-made lake, which is stocked with warm-water gamefish for local anglers to pursue from March to October. The rest of the year, it is a wildlife-sanctuary resting place for migrating waterfowl.



Stone & Webster Engineering Corporation

Stone & Webster Engineering Corporation recorded an impressive volume of new work during 1971 highlighted by awards of nine large nuclear generating units. New projects also included important fossil fuel generating facilities and the engineering and design of two large petrochemical plants overseas. The Corporation provided significant environmental engineering, appraisal, inspection and advisory services for many clients during the year.

Thirteen new electric power projects were undertaken in 1971, compared with six in the previous year. Included in the more than 11,000,000 kilowatts of new electric generating capacity added to the Engineering Corporation's backlog were fossil fired units for Tampa Electric Company and New England Power Company, a coal fired unit to be jointly owned by Pacific Power & Light Company and Black Hills Power and Light Company and nuclear power plants for New England Power Company, Northeast Utilities, Niagara Mohawk Power Corporation, Gulf States Utilities Company, Virginia Electric and Power Company and Philadelphia Electric Company.

Work on nuclear power projects previously awarded continued to play a large role in the Corporation's engineering activities during 1971. At year-end, more than 65% of the new electric generating capacity being engineered by the Engineering Corporation was for nuclear power plants.

A number of Engineering Corporation projects were completed in 1971. Put into operation were the 126,000 kilowatt Port Wentworth Unit No. 4 for Savannah Electric and Power Company, the 110,000 kilowatt Fort Churchill Unit No. 2 for Sierra Pacific Power Company, and the 500,000 kilowatt extension to the Rocky Reach Hydroelectric Power Plant for Public Utility District No. 1 of Chelan County, Washington.

At the end of 1971, the Corporation completed the final phase of the Keystone Transmission Project which in its entirety covers 600 miles of high voltage 500 Kv transmission line through areas of Pennsylvania, New Jersey and Maryland.

Work neared completion on several of the Engineering Corporation's major power projects including the 1,000,000 kilowatt Northfield Moun-

tain Pumped Storage Project for Northeast Utilities, which, during the year, received the American Society of Civil Engineers "Award of Merit" in the Society's annual Outstanding Civil Engineering Achievement competition.

During 1971, the Environmental Engineering Division expanded substantially to meet the increasing emphasis on the environmental aspects of all Engineering Corporation projects. Court decisions requiring the Atomic Energy Commission to consider the total environmental impact of all nuclear facilities led to a considerable increase in the scope of Environmental Impact Reports for nuclear plants. The Corporation prepared ten such reports for seven different clients.

Stone & Webster's environmental engineers were also active in obtaining permits for thermal discharges and releases of combustion gases from power plants. In certain cases, the Corporation's success in these licensing activities was due to development of new and advanced concepts in environmental controls. During 1971, noise control became a more important activity of the Corporation's Environmental Engineering Division.

New work obtained during 1971 for chemical and industrial projects included the complete engineering of a 200,000 metric tons per year ethylene plant to be constructed at Pancevo, Yugoslavia for Hemijska Industrija, Pancevo. It will be the core facility of the first major petrochemical complex for the Yugoslav chemical industry and will incorporate Stone & Webster's Ultra Selective Conversion (USC) cracking process. Chinese Petroleum Corporation engaged the Engineering Corporation to provide complete engineering, design, procurement and construction advisory services for a petrochemical complex including a 230,000 tons per year ethylene plant in Taiwan. This complex will also incorporate Stone & Webster's USC process, as well as propylene production, gasoline, hydrogenation and a butadiene extraction unit, together with storage and other required off-site facilities.

During 1971 the engineering and supervision of construction of Atlanta Gas Light Company's liquefied natural gas storage unit by the Engineering Corporation was increased by the addition of a



The 1971 addition of this 126,000 kilowatt Unit No. 4 brings the total generating capacity of Savannah Electric and Power Company's Port Wentworth Station to over 300,000 kilowatts. All fossil-fueled units have been designed and constructed by Stone & Webster Engineering Corporation and all have been completed within budget estimates.



In conjunction with the client, Stone & Webster Canada Limited carried out the design, procurement and construction of the new Okanagan Distillery at Winfield, British Columbia, of Hiram Walker & Sons Limited. Construction began in September 1969 and was completed in August 1971. The \$30 million plant has complete facilities for manufacturing, maturing, blending, bottling and shipping. The new facility incorporates the most advanced industry techniques and equipment, with special high-speed bottling lines and an automated hi-rise storage warehouse. Particular care was taken to protect the natural beauty of the Okanagan Valley.

450,000 barrel liquefied natural gas storage tank and its associated facilities. The Corporation continued work on the construction of a 66 million gallons per year ethanol plant at Tuscola, Illinois for U. S. Industrial Chemicals Company, a division of National Distillers & Chemical Corporation, which is scheduled for completion in 1972.

In 1971, engineering and design work was completed on a 150 million pounds per year phenol manufacturing plant and related off-site facilities for Georgia-Pacific Corporation's petrochemical complex at Plaquemine, Louisiana. The Engineering Corporation also completed its engineering and consulting assignment for the Philippine

Petroleum Corporation in connection with the design and construction of a lubricating oil refinery in the Philippines.

Stone & Webster Engineering Limited

Stone & Webster Engineering Limited was very active during 1971 in spite of the slowing down in European industrial expansion. Work on a major petrochemical plant for Gulf Oil Raffinaderij N.V. in Rotterdam was completed early in 1971. Work is nearing completion on the large olefin complex for Total Chimie in northern France on which

Stone & Webster Engineering S.A. in Paris is collaborating; on the large ethylene and associated plants in Spain for E.N. Calvo Sotelo; on the olefin plant expansion for Petkim in Turkey and on the major ethylene, butadiene and gasoline plants for BP Chemicals International Ltd. in South Wales. Also at an advanced stage is the U.K. brewery for Bass Charrington which, when complete, will be Europe's largest single unit.

Due to a rescheduling of expansion programs by the Shell group, work on the large ethylene plant for Shell Chemicals U.K. Limited at Carrington, England was halted, but work continues on what will be the world's largest single train heavy oil cracker of 450,000 tons per year ethylene capacity being built in Holland for Shell Nederland Chemie N.V. Several consulting assignments were undertaken during the year for clients active in refinery, chemical and other fields; among the most important is the design of a large European distillery and a normal paraffins plant which would be the world's largest.

1971 marked a major development in Stone & Webster's European operations with the decision to develop the operations of Stone & Webster Engineering (Holland) N.V. into an integrated engineering, purchasing and construction organization under the over-all direction of Stone & Webster Engineering Limited. The Dutch Company is being developed to facilitate the expansion of the services of the organization on the continent.

Stone & Webster Canada Limited

Stone & Webster Canada Limited completed a number of major assignments during 1971 while continuing its work on the multimillion dollar steel mill expansion for The Algoma Steel Corporation, Limited at Sault Ste. Marie, Ontario, and the Humanities Library for the University of Toronto. The completed assignments included two distillery projects for Hiram Walker & Sons Limited, one at Walkerville, Ontario, and the other at Winfield, British Columbia, and the expansion of the No. 2 Olefin Unit at Varennes, Quebec for Gulf Oil Canada Limited, Shawinigan Chemicals Division. The conceptual design for another new distillery, proposed to be built in western Canada, was also completed.

Engineering and design were undertaken for such varied projects as ski jumps for the Canadian Ski Association, a central system maintenance center for The Hydroelectric Power Commission of Ontario, and a lube blending and packaging plant for Shell Canada Limited. Reports and appraisals in conjunction with Stone & Webster Engineering Corporation and Stone & Webster Management Consultants, Inc. were made for a number of Canadian clients. The Canadian Company is assisting Stone & Webster Engineering Limited in the design of a new distillery in Europe.

Stone & Webster Management Consultants, Inc.

Consulting and advisory services were provided by Stone & Webster Management Consultants, Inc. to 135 clients, including industrial companies, transportation organizations, utilities, banks, real estate developers, governmental agencies, and private investors. Of the total, 46 received services under continuing annual contracts.

The number of consulting assignments showed the continuing need of industry for outside professional assistance in resolving problems involved with fuel shortages, rising costs, and, in the case of utilities, efforts to obtain rate increases.

The character of the services rendered embraced such fields as organizational and marketing studies, valuations, joint ventures, financing programs, construction planning, operational analyses, acquisitions and mergers, simplification of office procedures, automated accounting and record keeping, tax matters, marketing and public relations programs, labor negotiations, computer systems and program support, and insurance and pension programs. Computer-oriented activities of the Information Services Division continue to grow and in 1971 included installations for clients in the areas of general accounting, billing, payroll, inventory control, stores accounting, budgeting, forecasting, and customer information, inquiries, and service order systems.

Stone & Webster Overseas Consultants, Inc., a subsidiary of Management Consultants, undertook projects in Australia, Brazil, Indonesia, Iran, Panama, and Taiwan. Upon completion of gas conver-

sion projects in Perth and Freemantle in mid-1972, Overseas Consultants will have converted to natural gas the appliances of 365,000 gas customers in Australia. In Brazil, a contract has been entered into with Engevix, S. A., Rio de Janeiro, for consulting services in the execution of a pipeline project for Companhia Municipal de Gas, Sao Paulo. The assignment involves an industrial survey, a feasibility study, and advisory services in connection with design and construction of two medium pressure synthetic-gas pipelines in Sao Paulo.

Stone & Webster Securities Corporation

The financial climate during 1971 was marked by rapidly changing developments resulting in erratic bond and stock markets. Domestically, the nation experienced a deteriorating balance of payments and the government's campaign against inflation through the Wage-Price Freeze and Phase Two. Abroad there were negotiations on currency revaluations and other unsettling international events. In spite of these conditions, financings by industry continued at a high level. Inasmuch as construction programs in the last few years were financed mostly by debt, a larger proportion of the financings in 1971 were equity offerings of common and preferred stocks. It is expected that equities will continue to constitute a large portion of financing for a period of time, particularly for utility companies.

The Securities Corporation has expanded significantly during the last five years. The sales force has increased substantially and the number of offices in the United States has grown from eight to 27. To support this enlarged operation, the Corporation has increased the size and depth of its corporate finance, trading and research departments. The Securities Corporation has formed an investment advisory service subsidiary, Stone & Webster Capital Management Corporation, which, beginning in 1972, will provide for the management of the portfolios of corporate pension funds and substantial individual accounts.

During 1971, Stone & Webster Securities Corporation managed or co-managed nearly \$1.2 billion of stock and bond offerings excluding 14 issues which were placed privately for corporate borrowers. The Corporation's total underwriting

participation approximated \$720,000,000 in 1971, and the number of issues in which the Corporation participated increased to 697 in 1971 as compared with 469 issues in 1970.

The Securities Corporation's corporate finance department continues to look for areas in which to expand, using new and imaginative concepts. These may include the use of warrants, lease financing and off-the-balance-sheet financing. Currently it is involved in using such concepts in financing nuclear fuel and gas turbines in addition to other facilities.

Stone & Webster Securities Corporation is an associate member of the American Stock Exchange and a member of the Midwest and Pacific Coast Stock Exchanges and is a primary market maker on the over-the-counter NASDAQ System. These associations have helped to increase the Corporation's daily volume of business.

Industrial Gas Supply Corporation

Industrial Gas Supply Corporation is engaged primarily in the business of producing, purchasing, gathering, transporting and distributing natural gas to industries in the ship channel area complex of Houston, Texas through its 500-mile intrastate pipeline system.

During 1971, company-owned and controlled wells produced 9.3% of the total sales volume of 35.9 billion cubic feet compared to 10% of 38.0 billion cubic feet in 1970. The continuing increase in the nation's demand for natural gas coupled with a decrease in the discovery rate has intensified the competition between intrastate companies, such as Industrial, as well as interstate companies. This has resulted in a rapid increase in the cost to acquire new reserves.

Spruce Hills Production Company, Inc.

Spruce Hills Production Company, Inc. owns working interests in some of the largest oil and gas fields in Western Canada. As a result of the continuing high demand for Canadian oil coupled with an increase in price per barrel, the Company's revenues increased substantially in 1971. Net production this year of 294,000 barrels of liquids and

692 million cubic feet of gas compared with 268,000 barrels and 718 million cubic feet produced last year.

Commercial Cold Storage, Inc.

As a result of a continuing high demand for the frozen food storage services of Commercial Cold Storage, Inc., the Company has under construction a major addition to its facility in Northeast Atlanta. This latest expansion will increase the capacity of

the Doraville plant to 5,000,000 cubic feet and, together with the Southeast Atlanta plant, will offer 8,000,000 cubic feet of freezer and cooler storage space to assist customers in their distribution of refrigerated food products into the Southeastern area of the United States. The new addition will be operative June 1, 1972. Beginning January 1972, the Company offered a freight consolidation service. This new extension of its service is designed to reduce transportation costs to its customers and significantly improve distribution efficiency.



This large olefin complex designed and constructed by Stone & Webster Engineering Limited for Total Chemie is nearing completion. Situated at Le Havre in northern France, the plant incorporates Stone & Webster's exclusive USC (Ultra Selective Conversion) cracking process.



Stone & Webster Engineering Corporation designed and supervised the construction of the four-unit 500,000 kilowatt extension at the Rocky Reach Hydroelectric Project of Public Utility District No. 1 of Chelan County, Washington. The first seven units were completed by the Engineering Corporation in 1962, as pictured above, and with the 1971 extension it is the largest hydroelectric project ever completed by the Engineering Corporation and one of the largest in the world.

A Special Report: Stone & Webster and Nuclear Power

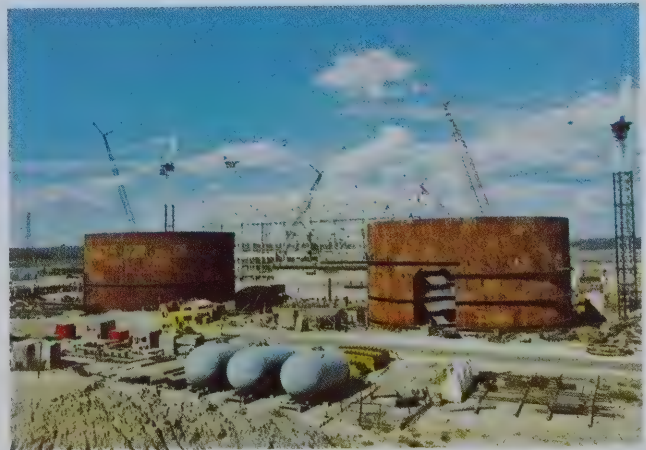
One of the outstanding technological advances of the twentieth century has been the development of nuclear energy for the generation of electric power. The impact of this important breakthrough is dramatically illustrated by present-day forecasts which predict that by the year 2000 more than half of the nation's energy requirements will be met by nuclear generation.

Stone & Webster has always played a prominent role in the development of the nation's fossil fuel and hydroelectric generating plant facilities. It now pioneers in the use of nuclear energy for power generation.

In 1954 Stone & Webster was selected as the architect-engineer for the nuclear portion of the Shippingport Power Plant and provided a substantial part of the engineering design for this first commercial scale nuclear power plant in the United States. Early in 1955 Stone & Webster was selected as the engineer-constructor for APPR-1 (now known as SM-1), a 10,000 thermal kilowatt prototype pressurized water reactor built for the Corps of Engineers at Fort Belvoir, Virginia. This plant, completed prior to the one at Shippingport, is one of the oldest operating nuclear power plants in the United States. At the conclusion of those efforts, design and construction was begun on the Yankee Atomic facility at Rowe, Massachusetts. Construction of the plant began early in 1958 and was completed and producing power three years later, ahead of schedule and below estimated cost. This internationally acclaimed plant, now operating at 185,000 kilowatts, has been generat-

ing electricity for more than 11 years with an outstanding record of performance.

Stone & Webster subsequently was retained by Carolinas Virginia Nuclear Power Associates, Inc. to design a nuclear power plant located at Parr Shoals, South Carolina. The design output of this prototype plant was equivalent to a net electric generating capacity of 17,000 kilowatts. The reactor was of the pressure tube type moderated by heavy water and was the first commercial installation of its kind in the United States. Prior to retirement in 1967, it generated 200 million kilowatt hours with an enviable record of reliability.



Surry Power Station, Virginia Electric and Power Company

Following the success of Yankee Rowe, Stone & Webster was chosen by Connecticut Yankee Atomic Power Company to provide the engineering, design and construction of the 600,000 kilowatt Connecticut Yankee Power Station at Haddam Neck, Connecticut. Put into commercial operation on January 1, 1968, it was the largest nuclear power plant of its type generating commercial power. During the four years of its operation, it has generated over 15 billion kilowatt hours.

Stone & Webster managed construction of the 620,000 kilowatt Nine Mile Point Station for Niagara Mohawk Power Corporation. This boiling water reactor plant started operation in 1969.

Today, with greatly expanded resources of qualified personnel built around the nucleus of engineers who became widely known for their achievements, Stone & Webster engineers are continuing



Yankee Rowe, Yankee Atomic Power Company



Nine Mile Point Nuclear Station,
Niagara Mohawk Power Corporation

to put their experience and technical expertise to work.

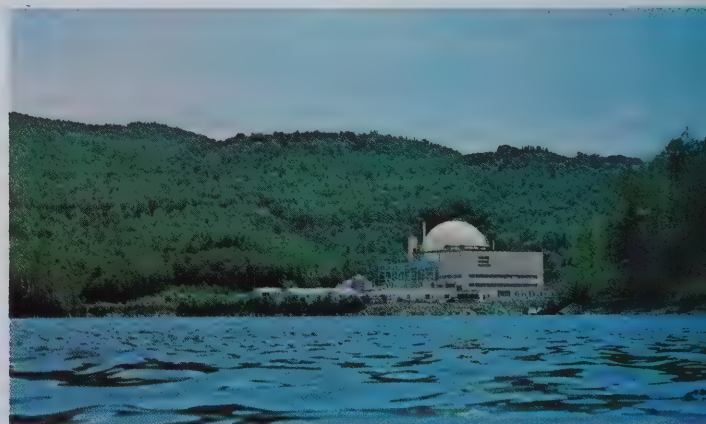
During 1971, Stone & Webster Engineering Corporation was awarded the design and construction of nine major nuclear generating plants with a total generating capacity of over 9,000,000 kilowatts. These new awards brought the total number of nuclear plants under various stages of engineering, design and construction by the Engineering Corporation to 19. Some of these utilize pressurized water reactors, some boiling water reactors and two have high temperature gas cooled reactors (HTGR). The two 1150 megawatt units for Philadelphia Electric Company will form the largest HTGR plant in the United States. The total capacity of nuclear plants under way by the Corporation amounts to nearly 18,000,000 kilowatts.

Scheduled completion dates for nuclear projects currently under design and construction range from 1972 to 1981. Nuclear projects scheduled for completion in 1972 include Virginia Electric and Power Company's Surry Power Station which consists of two 859,000 kilowatt units and Maine Yankee Atomic Power Company's 864,000 kilowatt Maine Yankee plant.

With experience dating from the first commercial nuclear generating station, Stone & Webster engineers have developed special technical capabilities. In addition, they assist clients with license

applications to the Atomic Energy Commission, preparing various documents as required including the Environmental Impact Reports. They have made major contributions in the use of reinforced concrete for containment of both pressurized water reactors and boiling water reactors. Our engineers developed a concept of sub-atmospheric containment for pressurized water reactors and designed efficient waste management systems.

The demands for electrical power in this country must be met on an economical and reliable basis while preserving the quality of our environment. The advent of nuclear power has already done much to meet these objectives. We are confident that with continuing research and development, additional technological breakthroughs in both nuclear and fossil fuel technology will be achieved and that Stone & Webster will continue to play a prominent role in these exciting developments.



Connecticut Yankee, Connecticut Yankee Atomic Power Company



Maine Yankee, Maine Yankee Atomic Power Company

Stone & Webster, Incorporated and Consolidated Subsidiaries

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended December 31, 1971	Year Ended December 31, 1970
Gross Earnings:		
Engineering and construction services (Note C)	\$37,646,000	\$33,143,000
Consulting and other services	4,101,000	4,351,000
Securities underwriting and trading, and other income incident to investment banking business	15,712,000	11,392,000
Natural gas and oil sales, profit and other income from mineral interests	9,690,000	9,984,000
Cold storage and related activities	2,089,000	1,861,000
Dividends and interest	4,689,000	5,516,000
<i>Includes dividends of \$315,000 in 1970 from unconsolidated subsidiaries (foreign).</i>		
Profits on investment securities	1,131,000	7,864,000
<i>After taxes, represents net income per share of \$.37 in 1971 and \$1.33 in 1970.</i>		
Rents	1,527,000	1,444,000
Other	290,000	100,000
Total	76,875,000	75,655,000
Operating and General Expenses	50,928,000	44,823,000
<i>Includes cost of gas purchased for resale of \$5,600,000 in 1971 and \$5,784,000 in 1970.</i>		
Taxes, Other than Income Taxes	2,033,000	1,996,000
Provision for Depreciation and Depletion (Note D)	1,577,000	1,396,000
Interest Expense	1,015,000	780,000
Total	55,553,000	48,995,000
Income before Provision for Income Taxes	21,322,000	26,660,000
Provision for Income Taxes:		
Federal	6,699,000	9,647,000
State, local and foreign	1,231,000	845,000
	7,930,000	10,492,000
Net Income (per share*: \$3.45 in 1971; \$4.11 in 1970)	13,392,000	16,168,000
Retained Earnings at beginning of year	62,175,000	53,467,000
Total	75,567,000	69,635,000
Dividends Declared	7,369,000	7,460,000
<i>Per share:</i>		
<i>1971: 47½ ¢ each paid on May 1, August 2 and November 1, 1971; 47½ ¢ payable on February 1, 1972.</i>		
<i>1970: 47½ ¢ each paid on May 1, August 1 and November 2, 1970; 47½ ¢ paid on February 1, 1971.</i>		
Retained Earnings at end of year	\$68,198,000	\$62,175,000

* Per share figures based on average number
of shares outstanding during each period.

See Notes to Financial Statements.

ASSETS

	December 31, 1971	December 31, 1970
Current Assets:		
Cash	\$ 7,406,000	\$ 11,547,000
U. S. Government Securities and Bank Certificates of Deposit	15,394,000	14,361,000
Securities incident to investment banking business, at cost	32,098,000	7,876,000
<i>Total based on market quotations: \$32,718,000 at December 31, 1971 and \$8,191,000 at December 31, 1970.</i>		
<i>Includes securities, carried at \$28,595,000 at December 31, 1971 and \$5,862,000 at December 31, 1970, pledged as collateral for bank loans.</i>		
Accounts, Notes and Interest Receivable	34,070,000	24,431,000
<i>Includes \$26,088,000 at December 31, 1971 and \$16,231,000 at December 31, 1970 incident to the investment banking business.</i>		
Unbilled Charges under Contracts	6,528,000	5,680,000
Materials and Supplies, at cost	133,000	150,000
Total Current Assets	95,629,000	64,045,000
Clients' Funds Held under Construction Contracts (per contra)	667,000	472,000
Investments in Unconsolidated Subsidiaries, at cost (Note A)	591,000	193,000
Other Investment Securities, at cost	7,218,000	8,155,000
<i>Total based on market quotations: \$68,407,000 at December 31, 1971 and \$71,827,000 at December 31, 1970 (no allowance made for taxes on unrealized appreciation).</i>		
Long-Term Receivable, less amount included under Current Assets	2,649,000	3,019,000
<i>From sale of natural gas interest, due in varying amounts from 1973 to 1980.</i>		
Natural Gas and Oil Properties and Other Mineral Interests	11,717,000	11,689,000
<i>At cost, less accumulated depreciation and depletion of \$9,878,000 at December 31, 1971 and \$9,243,000 at December 31, 1970.</i>		
Cold Storage Plant and Equipment	6,891,000	6,489,000
<i>At cost, less accumulated depreciation of \$1,143,000 at December 31, 1971 and \$969,000 at December 31, 1970.</i>		
Office Building and Other Property	4,391,000	4,505,000
<i>Building at less than cost, other property at cost, less accumulated depreciation of \$4,550,000 at December 31, 1971 and \$4,543,000 at December 31, 1970.</i>		
Furniture and Equipment	2,834,000	2,066,000
<i>At cost, less accumulated depreciation of \$3,082,000 at December 31, 1971 and \$2,692,000 at December 31, 1970.</i>		
Other Assets and Deferred Charges	6,518,000	5,819,000
<i>Includes \$1,961,000 cost in excess of equity of firms acquired.</i>		
	<u>\$139,105,000</u>	<u>\$106,452,000</u>

See Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1971	December 31, 1970
Current Liabilities:		
Notes Payable (bank loans)	\$ 25,016,000	\$ 4,842,000
<i>Indebtedness of investment banking subsidiary, with securities pledged as collateral.</i>		
Accounts Payable	22,160,000	13,522,000
<i>Includes \$19,754,000 at December 31, 1971 and \$10,632,000 at December 31, 1970 incident to the investment banking business.</i>		
Dividends Declared	1,840,000	1,864,000
Advance Payments by Clients	5,171,000	3,112,000
Long-Term Debt (payments due within one year)	181,000	175,000
Accrued Federal, State and Other Taxes	1,951,000	5,275,000
Other Accrued Liabilities	5,459,000	4,417,000
Total Current Liabilities	61,778,000	33,207,000
Clients' Funds Held under Construction Contracts (per contra)	667,000	472,000
Long-Term Debt of Commercial Cold Storage, Inc. (a subsidiary), less amount shown under Current Liabilities	1,102,000	1,283,000
<i>Due in varying amounts from 1973 to 1978, and bearing interest at various rates.</i>		
Deferred Profit	2,960,000	3,323,000
<i>From sale of natural gas interest, being taken into earnings on installment basis.</i>		
Deferred Federal Income Taxes	2,013,000	1,497,000
Stockholders' Equity:		
Preferred Stock	—	—
<i>Authorized, 2,000,000 shares of no par value; none issued.</i>		
Common Stock, carried at	7,869,000	7,869,000
<i>Authorized, 10,000,000 shares of \$1 par value; issued 4,287,502 shares, including shares held in treasury.</i>		
Capital in Excess of Carrying Value of Common Stock	8,927,000	8,927,000
Retained Earnings	68,198,000	62,175,000
	84,994,000	78,971,000
Less Common Stock in Treasury, at cost	14,409,000	12,301,000
<i>414,532 shares at December 31, 1971 and 363,432 shares at December 31, 1970. (Note B).</i>		
Total Stockholders' Equity	70,585,000	66,670,000
	<u>\$139,105,000</u>	<u>\$106,452,000</u>

Stone & Webster, Incorporated and Consolidated Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31, 1971	Year Ended December 31, 1970
Source of Funds:		
Operations:		
Net income	\$13,392,000	\$16,168,000
Depreciation and depletion	1,577,000	1,396,000
	<u>\$14,969,000</u>	<u>\$17,564,000</u>
Application of Funds:		
Additions to property, plant and equipment	\$ 2,661,000	\$ 3,361,000
Purchase of common stock for treasury	2,108,000	315,000
Dividends declared	7,369,000	7,460,000
Decrease in other assets and liabilities	(182,000)	(1,069,000)
Increase (decrease) in working capital:		
Increase (decrease) in cash and cash items	(3,108,000)	14,878,000
Increase (decrease) in other current assets	34,692,000	(14,560,000)
Decrease (increase) in current liabilities	(28,571,000)	7,179,000
	<u>\$14,969,000</u>	<u>\$17,564,000</u>

NOTES TO FINANCIAL STATEMENTS

(A) The consolidated financial statements include the accounts of subsidiaries of Stone & Webster, Incorporated, other than foreign subsidiaries and certain subsidiaries organized for foreign activities. The net assets applicable to the investments in the unconsolidated subsidiaries, as shown by their balance sheets, exceeded the aggregate amount at which such investments are carried by approximately \$1,775,000 at December 31, 1971 (\$2,180,000 at December 31, 1970), based on appropriate rates of exchange where foreign currencies are involved. Such excess represents undistributed earnings of the unconsolidated subsidiaries since acquisition or date of formation.

(B) The Corporation purchased 51,100 shares of its Common Stock for \$2,108,000 in 1971 which were added to its holdings of Treasury Stock. The Corporation has continued and may continue, from time to time, to purchase additional shares of its Common Stock, for possible use in the employee savings plan and for other corporate purposes, on the New York Stock Exchange, or otherwise.

(C) Gross earnings from engineering and construction services include, generally on a percentage of completion basis, fees earned on agency contracts and the excess of revenues (\$15,893,000 in 1971 and \$6,233,000 in 1970) over direct construction costs (\$14,071,000 in 1971 and \$4,380,000 in 1970) on non-agency contracts. Such revenues and costs are exclusive of expenditures made directly by clients.

NOTES TO FINANCIAL STATEMENTS

(D) Depreciation generally is provided on a straight-line basis at rates adequate to depreciate the applicable assets over their estimated useful lives. Depreciation expense for 1971 was \$1,335,000 and \$1,182,000 for 1970. At December 31, 1971 depreciable assets were carried at \$18,483,000 after deducting accumulated depreciation.

(E) The Corporation and its principal subsidiaries, the accounts of which are included in the consolidated financial statements, have a retirement plan covering executive, administrative, technical and clerical employees. Total retirement expense for 1971 was \$1,884,000, as compared with \$1,600,000 for 1970. Said amounts include amortization of the unfunded balance of prior service cost over periods of from 20 to 30 years beginning in 1970. Contributions to the trust fund under the plan totaled \$1,872,000 in 1971 and \$1,579,000 in 1970.

(F) Subsidiary companies are committed for annual rentals of approximately \$3,300,000 under long-term leases, the longest of which extends to 1995.

(G) The investment tax credit has been recorded on the flow-through method of accounting whereby the benefit of such credit is currently reflected in the income statement.

(H) Stone & Webster Engineering Corporation, a subsidiary, has been named a defendant, along with others, in legal actions claiming damages in connection with construction projects. Counsel and management believe, on the basis of their examination and consideration of these matters, that these actions will not result in payment of amounts which would have a material effect on the financial statements.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

*To the Board of Directors of
Stone & Webster, Incorporated:*

We have examined the consolidated balance sheet of Stone & Webster, Incorporated and Consolidated Subsidiaries as of December 31, 1971 and the related consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the Corporation for the year 1970.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Stone & Webster, Incorporated and Consolidated Subsidiaries at December 31, 1971 and 1970, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 15, 1972

Stone & Webster, Incorporated and Consolidated Subsidiaries

TEN-YEAR

	1971	1970	1969
Gross Earnings:			
Engineering and construction services	\$ 37,646,000	\$ 33,143,000	\$ 25,258,000
Consulting and other services	4,101,000	4,351,000	4,686,000
Securities underwriting and trading, and other income incident to investment banking business	15,712,000	11,392,000	10,928,000
Natural gas and oil sales, profit and other income from mineral interests	9,690,000	9,984,000	9,929,000
Cold storage and related activities	2,089,000	1,861,000	1,611,000
Dividends and interest	4,689,000	5,516,000	5,499,000
Profits on investment securities	1,131,000	7,864,000	218,000
<i>After taxes, represents net income per share of \$.37 in 1971 and \$1.33 in 1970</i>			
Rents	1,527,000	1,444,000	1,278,000
Other	290,000	100,000	13,000
Total	76,875,000	75,655,000	59,420,000
Operating and General Expenses	50,928,000	44,823,000	39,244,000
Taxes, Other than Income Taxes	2,033,000	1,996,000	1,818,000
Provision for Depreciation and Depletion	1,577,000	1,396,000	1,294,000
Interest Expense	1,015,000	780,000	708,000
Total	55,553,000	48,995,000	43,064,000
Income before Provision for Income Taxes and extraordinary items	21,322,000	26,660,000	16,356,000
Provision for Income Taxes:			
Federal	6,699,000	9,647,000	5,550,000
State, local and foreign	1,231,000	845,000	674,000
	7,930,000	10,492,000	6,224,000
Income before extraordinary items	13,392,000	16,168,000	10,132,000
Extraordinary items	—	—	—
Net Income	\$ 13,392,000	\$ 16,168,000	\$ 10,132,000
Dividends paid	\$ 7,393,000	\$ 7,465,000	\$ 7,541,000
Dividends paid per share (Note 1)	\$1.90	\$1.90	\$1.90
Earnings per share (Notes 1 and 2):			
Income before extraordinary items	3.45	4.11	2.55
Extraordinary items	—	—	—
Net Income	3.45	4.11	2.55
Summary of Balance Sheet at End of Year:			
Current Assets	\$ 95,629,000	\$ 64,045,000	\$ 63,727,000
Investment Securities (including Investments in Unconsolidated Subsidiaries)	7,809,000	8,348,000	10,354,000
Long-Term Receivable, less amount included under Current Assets	2,649,000	3,019,000	3,389,000
Natural Gas and Oil Properties and Other Mineral Interests	11,717,000	11,689,000	11,593,000
Cold Storage Plant and Equipment	6,891,000	6,489,000	5,628,000
Office Buildings and Other Property	4,391,000	4,505,000	3,927,000
Other assets and deferred charges	10,019,000	8,357,000	7,622,000
Total Assets	\$139,105,000	\$106,452,000	\$106,240,000
Current Liabilities	\$ 61,778,000	\$ 33,207,000	\$ 40,386,000
Long-Term Debt, less amount shown under Current Liabilities	1,102,000	1,283,000	1,458,000
Other liabilities, deferred taxes and sundry credits	2,680,000	1,969,000	2,247,000
Deferred Profit	2,960,000	3,323,000	3,867,000
Stockholders' Equity:			
Preferred Stock	—	—	—
Common Stock, carried at	7,869,000	7,869,000	7,874,000
Capital in Excess of Carrying Value of Common Stock	8,927,000	8,927,000	8,927,000
Retained Earnings	68,198,000	62,175,000	53,467,000
	84,994,000	78,971,000	70,268,000
Less Common Stock in Treasury, at cost	14,409,000	12,301,000	11,986,000
Total Stockholders' Equity	70,585,000	66,670,000	58,282,000
Total Liabilities and Stockholders' Equity	\$139,105,000	\$106,452,000	\$106,240,000

Notes: (1) Per share figures prior to 1967 have been restated to reflect the two-for-one stock split in December 1967.

(2) Per share figures based on average number of shares outstanding during each period.

STATISTICAL INFORMATION

1968	1967	1966	1965	1964	1963	1962
\$ 21,232,000 4,719,000	\$20,378,000 4,497,000	\$18,734,000 4,012,000	\$17,945,000 4,444,000	\$14,990,000 4,182,000	\$12,787,000 3,778,000	\$ 9,492,000 3,838,000
7,361,000	7,400,000	4,201,000	3,750,000	3,421,000	4,248,000	3,428,000
9,501,000 1,438,000 5,566,000 660,000	8,938,000 1,279,000 4,868,000 —	9,040,000 1,012,000 5,058,000 —	9,116,000 842,000 4,640,000 —	8,912,000 751,000 3,905,000 240,000	9,062,000 427,000 3,627,000 —	9,550,000 — 3,559,000 444,000
1,240,000 8,000	1,007,000 12,000	928,000 45,000	994,000 43,000	995,000 12,000	990,000 18,000	920,000 13,000
51,725,000	48,379,000	43,030,000	41,774,000	37,408,000	34,937,000	31,244,000
32,152,000 1,673,000 1,219,000 464,000	28,807,000 1,302,000 1,171,000 279,000	25,762,000 1,241,000 1,104,000 227,000	23,527,000 1,433,000 924,000 343,000	21,759,000 1,488,000 887,000 214,000	20,743,000 1,411,000 1,034,000 137,000	19,699,000 1,357,000 910,000 36,000
35,508,000	31,559,000	28,334,000	26,227,000	24,348,000	23,325,000	22,002,000
16,217,000	16,820,000	14,696,000	15,547,000	13,060,000	11,612,000	9,242,000
4,884,000 777,000 5,661,000 10,556,000 —	5,594,000 742,000 6,336,000 10,484,000 646,000	4,679,000 304,000 4,983,000 9,713,000 —	4,931,000 363,000 5,294,000 10,253,000 717,000	4,325,000 307,000 4,632,000 8,428,000 —	4,255,000 261,000 4,516,000 7,096,000 —	2,714,000 229,000 2,943,000 6,299,000 —
\$ 10,556,000	\$11,130,000	\$ 9,713,000	\$10,970,000	\$ 8,428,000	\$ 7,096,000	\$ 6,299,000
\$ 7,255,000 \$1.80	\$ 7,164,000 \$1.75	\$ 7,216,000 \$1.75	\$ 6,730,000 \$1.62½	\$ 6,199,000 \$1.50	\$ 6,178,000 \$1.50	\$ 6,212,000 \$1.50
2.63 — 2.63	2.56 .16 2.72	2.36 — 2.36	2.48 .17 2.65	2.04 — 2.04	1.73 — 1.73	1.52 — 1.52
\$ 74,865,000	\$56,848,000	\$49,002,000	\$50,281,000	\$38,489,000	\$35,154,000	\$33,667,000
10,197,000	10,571,000	10,686,000	10,500,000	9,939,000	9,818,000	9,819,000
3,944,000	4,499,000	5,054,000	5,610,000	6,165,000	6,781,000	7,398,000
11,630,000 5,520,000 3,226,000 4,111,000	11,862,000 5,181,000 3,292,000 3,564,000	11,636,000 4,705,000 3,266,000 3,516,000	11,677,000 4,504,000 3,223,000 2,882,000	10,810,000 4,564,000 4,360,000 1,930,000	10,472,000 4,049,000 4,302,000 1,624,000	11,046,000 — 4,325,000 1,641,000
\$113,493,000	\$95,817,000	\$87,865,000	\$88,677,000	\$76,257,000	\$72,200,000	\$67,896,000
\$ 48,002,000	\$29,607,000	\$23,557,000	\$25,985,000	\$16,662,000	\$14,158,000	\$13,382,000
1,629,000 2,116,000 4,412,000	1,794,000 2,075,000 4,956,000	2,155,000 1,993,000 5,501,000	2,312,000 1,339,000 6,045,000	2,465,000 1,321,000 6,650,000	2,517,000 1,070,000 7,255,000	— 610,000 7,859,000
6,778,000 8,927,000 50,858,000	6,607,000 8,927,000 47,619,000	6,588,000 8,927,000 42,903,000	6,481,000 8,927,000 40,391,000	6,363,000 8,927,000 36,672,000	6,111,000 8,927,000 34,965,000	5,870,000 8,927,000 34,051,000
66,563,000 9,229,000	63,153,000 5,768,000	58,418,000 3,759,000	55,799,000 2,803,000	51,962,000 2,803,000	50,003,000 2,803,000	48,848,000 2,803,000
57,334,000	57,385,000	54,659,000	52,996,000	49,159,000	47,200,000	46,045,000
\$113,493,000	\$95,817,000	\$87,865,000	\$88,677,000	\$76,257,000	\$72,200,000	\$67,896,000

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RAYMOND C. FOSTER
Vice Chairman of the Board

HALMER L. BAKER
President

RICHARD N. BENJAMIN
Chairman of Executive Committee

JOHN H. ALEXANDER
Partner
Mudge Rose Guthrie & Alexander

EDWARD C. BREWSTER
Trustee

WILLIAM L. BROWN
President
The First National Bank of Boston

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Chairman of the Board
American Express Company

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Chairman
W. R. Grace & Co.

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Chairman of the Board
Harris, Upham & Co., Incorporated

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Executive Vice President
The Chase Manhattan Bank, N.A.

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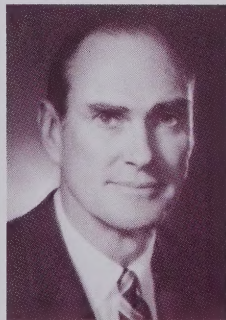
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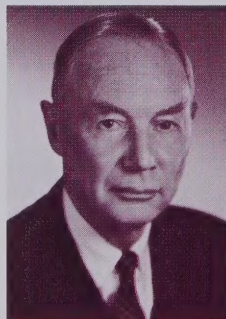
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BANK, N.A.
NEW YORK

Registrar

MANUFACTURERS HANOVER
TRUST COMPANY
NEW YORK

The Stone & Webster Organization

Listed below, with an outline of their major activities, are the principal corporate components of the Stone & Webster organization. The subsidiaries listed are 100 per cent owned.

Stone & Webster, Incorporated is principally engaged in the coordination of the activities and policies of its subsidiaries. It also owns certain interests, mainly in the natural gas industry, and is prepared to participate in promising enterprises which may not be in a position to obtain public financing.

Stone & Webster Engineering Corporation furnishes complete design and construction services for power and industrial projects, and through its Process Industries Group to companies in the petroleum, chemical, paper and pharmaceutical fields. It also constructs from plans developed by others, makes engineering reports, business examinations and appraisals, and undertakes consulting engineering work.

Stone & Webster Engineering Limited, with offices at 20, Red Lion Street, London WC1R 4PT, furnishes design and construction services, particularly for petroleum and chemical companies in Great Britain, Europe, the Middle East and Australia, in association with Stone & Webster Engineering (Holland) N.V. (The Hague), Stone & Webster Engineering S.A. (Paris), and Stone & Webster Engineering Pty. Limited (Sydney, New South Wales).

Stone & Webster Management Consultants, Inc. supplies comprehensive management consulting services for business and industry, including public utility, transportation, pipeline, land development, banking, petroleum and manufacturing companies. Government agencies, foreign and domestic, also use these services. Foreign assignments are conducted by Stone & Webster Overseas Consultants Inc. and Stone & Webster Service Pty. Limited (Melbourne).

Stone & Webster Securities Corporation furnishes comprehensive financial services to issuers of securities and to investors; underwriting and distributing, at wholesale and at retail, corporate, government and municipal bonds, as well as preferred and common stocks. It also handles orders in issues traded on all stock exchanges and in the over-the-counter market.

Stone & Webster Canada Limited, with headquarters office at 60 Adelaide Street East, Toronto 210, offers to Canadian industry the services of the entire Stone & Webster organization with particular emphasis on design and construction, reports, appraisals, surveys and general advisory services. Design and construction services in the mining and metallurgical fields are furnished to clients both within and outside of Canada.

Industrial Gas Supply Corporation is engaged in the business of producing, purchasing and transporting natural gas and distributing the same at wholesale and to large industrial users in Houston, Texas and vicinity.

San Salvador Development Company, Inc. owns natural gas and other mineral interests, principally in Texas.

Spruce Hills Production Company, Inc. owns oil and natural gas interests in Canada, principally in the Province of Alberta.

Commercial Cold Storage, Inc. is engaged in modern cold storage warehousing and offers blast-freeze and a wide variety of other refrigeration services in the Metropolitan Atlanta area of Georgia to food-processors and others.

The Stone & Webster Building, Incorporated operates, for Stone & Webster, Incorporated, the Stone & Webster building located at 90 Broad Street, New York, N. Y. Approximately 40% of the available space is occupied by the Stone & Webster organization, and the balance is rented to others.



STONE & WEBSTER, INCORPORATED / 90 Broad Street, New York, N.Y. 10004